



## COMMUNITY COMMENTS

Volume XXI

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## Number 4

March, 1972

## Economics of Non-Inflationary Full Employment

A row of 15 identical black dollar signs arranged horizontally, centered on the page.

# The Simplicity

\$\$\$ of \$\$\$

## Economic Reality

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A row of six hand-drawn dollar signs, each consisting of a stylized 'S' shape with a diagonal line through it, rendered in black ink on a white background.

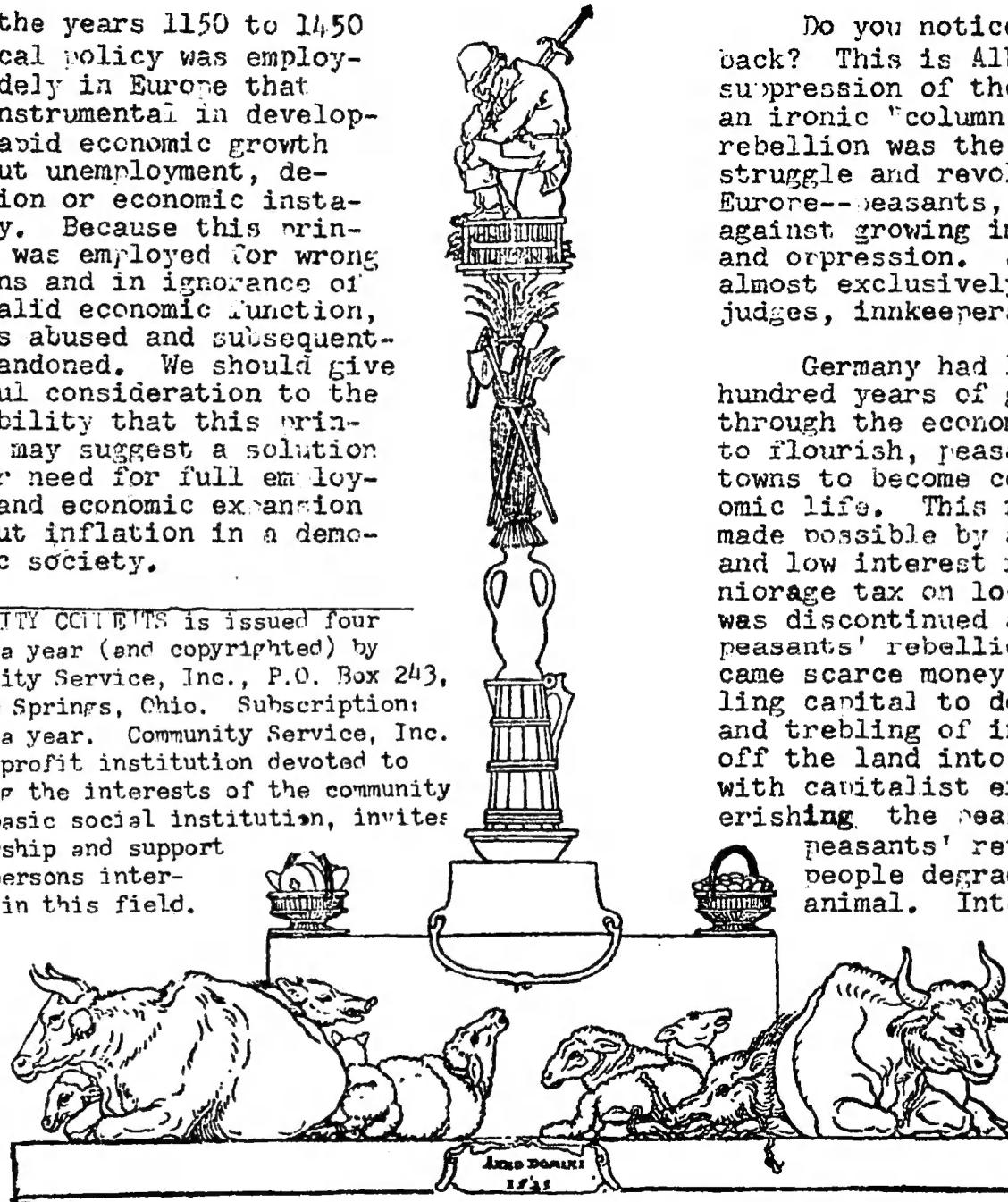
A grid of 12 hand-drawn dollar signs, arranged in three rows of four. Each dollar sign is drawn with a thick black marker, showing some texture and variation in the strokes. The signs are positioned in a staggered pattern across the frame.

**Community Service, Inc.**

**Yellow Springs, Ohio**

From the years 1150 to 1450 a fiscal policy was employed widely in Europe that was instrumental in developing rapid economic growth without unemployment, depression or economic instability. Because this principle was employed for wrong reasons and in ignorance of its valid economic function, it was abused and subsequently abandoned. We should give careful consideration to the possibility that this principle may suggest a solution to our need for full employment and economic expansion without inflation in a democratic society.

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Do you notice the sword through the peasant's back? This is Albrecht Durer's woodcut on the suppression of the German peasants' rebellion--an ironic "column of victory". The peasants' rebellion was the culmination of fifty years of struggle and revolt by the people of northern Europe--peasants, plebians, and local nobility--against growing impoverishment, indebtedness, and oppression. Supporters of the revolt were almost exclusively the village notables--mayors, judges, innkeepers and rich farmers.

Germany had left behind it more than two hundred years of growing prosperity and freedom through the economic order that permitted guilds to flourish, peasants to prosper, and small towns to become centers of industrial and economic life. This remarkable era in Europe was made possible by a plentiful medium of exchange and low interest rates resulting from the seigniorage tax on local currencies. But this tax was discontinued almost a century before the peasants' rebellion in 1525, and with its ending came scarce money and high interest rates, enabling capital to dominate the economy, doubling and trebling of interest rates, forcing people off the land into large cities, displacing guilds with capitalist exploitation of labor, and impoverishing the peasants. The suppression of the peasants' revolt and impoverishment of the people degraded the farmer to a working animal. Intellectual leaders no longer came from the ranks, as formerly did such leaders as Luther and Zwingli.

## THE SIMPLICITY OF ECONOMIC REALITY

Underlying many of the drastic problems confronting our world civilization is a simple economic problem that creates or accentuates unemployment, inflation, exploitation of man and nature, extremes of wealth and poverty, breakdown of educational procedures, the concentration of population into large cities from increasingly depopulated rural areas and international conflict.

All of these are, to a great extent, caused by money scarcity and excessive interest rates. Few of the economists today, trapped as they are by old theories, see the simple solution that would bring interest rates down, keep money in circulation and boost the economy.

It is the purpose of this article to show how the direct taxation of national currencies has worked in the past and how it can work today. We will show how this sort of taxation would work in practise and explain why this method as opposed to the others that have been tried, really can bring economic health.

The great economist, John Maynard Keynes, recognized the problems brought on by the inadequacy of markets and he explored many solutions - among them, this direct tax on currency. In the preface to his master work, The General Theory of Unemployment, Keynes wrote:

The ideas that are here expressed so laboriously are extremely simple and should be obvious. The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those of us brought up as most of us have been, into every corner of our minds.

Of the old economic understanding that so dominates our world, Keynes wrote, "its teaching is misleading and disastrous if we attempt to apply it to the facts of experience."

We see about us unemployment, overproduction, poverty amidst wealth, conflict between nations arising from competition for markets, and countless symptoms of economic failure in the governments of cities, counties, states and nations. Let us observe the historical evolution of such problems in order to better understand them.

One hundred and fifty years ago, Robert Owen, a pioneer industrialist, observed such problems as these in England as they occurred following industrial development during the Napoleonic Wars. He wrote:

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But peace at length followed, and found Great Britain in possession of a new power which . . . exceeded the labor of one hundred millions of the most industrious human beings without benefit of machinery in the full strength of manhood. . . . The war demand for the productions of labor having ceased, markets could not longer be found for them. . . . The deficiency of employment for the working classes cannot proceed from want of wealth or capital. . . . but from some defect in distributing that extraordinary addition of new capital throughout society, or, speaking commercially, from the want of a market or means of exchange.

Were effective measures devised to facilitate the distribution of wealth after it was created, there would be no difficulty in suggesting the means of beneficial occupation for all who are unemployed.<sup>1</sup>

Owen observed that during his own lifetime many workers had come to produce with machinery one hundred times as much as they could formerly produce by hand; yet the wages of labor were so low that it was harder to make a living than before the increase in productivity. People on a low income level could not buy more than a small fraction of the goods (produced by hand and at lower wages) they could afford previously.

The productivity of labor today is many times as great as it was one hundred and fifty years ago, but the historical problem of inadequate market is similar. Following the First World War there was a period of boom with a false stock market to absorb the surplus income of the wealthy. However, the underlying market was so inadequate that depression and unemployment ensued. Roosevelt's New Deal revived employment by borrowing and pumping money back into the economy through stop-gap relief measures until the Second World War made for full employment.

Unemployment and recession developed each time the government tried to balance the budget as in 1938, 1948, 1958, and 1970. The Marshall Plan and the Korean and Vietnam wars each in turn spent public money on a lavish scale, contributing toward full employment. Now with the de-escalation of the Vietnam War, the Nixon administration is planning for the largest peacetime deficit in history in order to put enough money into circulation to keep the economy moving. This is not merely an emergency or temporary measure that can be dropped in a year or two, but it is the fundamental long term problem the nation is facing with futile or inadequate tools.

Haynard Keynes had observed this same economic problem as had

Robert Owen and came to a similar conclusion. He wrote:

If effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. . . But if effective demand is adequate, average skill and average good fortune will be enough.<sup>2</sup>

So Keynes conceived of developing enough demand by making more money available for people to buy from and employ each other. But flooding the market with money creates progressive inflation and leaves the economy just as sick. Money again goes out of circulation as soon as the flood of money stops. Keynes observed that:

the authoritarian state systems of today seek to solve the problem of unemployment at the expense of efficiency and freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated with individualistic capitalism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom.<sup>3</sup>

We have suggested that Keynes' analysis of the problem was not adequate and that the widely employed Keynesian program of government spending to put money into circulation has carried with it the curse of inflation and economic instability. Yet if the government stops borrowing and spending beyond its income, aggravated unemployment and recession set in anew. What is the way out?

Fundamental to our economy is capital, measured in America in terms of dollars. People or organizations invest or lend money to get interest, profits and dividends from their capital. The greatly increased productive capacity of England through the period of the Napoleonic Wars lay in the large capital investment in industrial capacity. The rate of return on such investment and on loans throughout history usually ranges around six percent per year, though in the hands of financiers the yield of investment often runs several times this amount. This rate of return must be examined for one source of the difficulty of the economy. For when money is reinvested at this rate, the capital compounds in a way the economy cannot bear. A graphic demonstration of this is the thought that if two thousand years ago one penny had been invested at six percent annual compound interest it would now be worth more than the weight of the earth in gold.

An increase in productive capacity should, through competition, lead to lower retail prices such that the public can afford to buy what is produced. Instead, an increasingly large part of the national income is funnelled off to people receiving interest and dividends who cannot possibly consume all that wealth, but want to reinvest a substantial part of their income - if the interest rate is attractive enough. But when the rest of the public does not have enough money to buy what is produced, there is no point in investing in productive capacity to produce still more. So money is not spent or invested, but simply "hoarded". Money goes out of circulation and mounting depression ensues.

If the government tries to tax this large income, as in England, the tax tends to inhibit enterprise and impair economic life. Despite a much heavier rate of taxation for the wealthy the gulf between the rich and the poor continues to widen. The wealthy have the power to avoid taxes and the poor pay a disproportionate share. In the United States, around half of the income of the poorer people goes for taxes - income tax and taxes concealed in the price of goods. The wealthier you are the smaller the proportion of your income goes for taxes.

During the Kennedy administration the government found that it would have a higher income from taxes if its tax rate were reduced - all because a high tax rate has an inhibiting effect on the economy. Under the present economy a pyramiding burden of debt with an eventual collapse is in prospect. Within the past ten years the interest on the national debt in proportion to the tax income of the United States has doubled. Other governmental units are yet more severely affected by debts. The alternative to taxing, that of printing more money to put into circulation results in increasingly larger funds of money waiting to be dumped on the market with the threat of runaway inflation which makes necessary wage and price controls while interest rates are free. Even the slow inflation that now takes place upsets all relationships of wages and prices, forcing strikes and price controls to upset the economy.

When businesses cannot find a large enough market in their own nation, they seek a market in other nations and competition for markets becomes economic warfare, setting nation against nation. With large surpluses of money which the wealthy cannot profitably invest in new productive capacity (because of inadequate market) financiers and the wealthy buy up smaller firms, land, natural resources, news media and control over governments in order to have what they feel is a "secure investment" for their accumulating money income. This pattern is thousands of years old.

As a specific example of how the national economy has been working we cite a case typical of many in the history of our nation.

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The Birdseye Food Company was sold to J.P. Morgan<sup>4</sup> financiers for less than a million dollars. Within a few months of its purchase the J.P. Morgan firm sold Birdseye to the General Foods Corporation for twenty-four million dollars. One or two of the J.P. Morgan partners were among the directors of General Foods.<sup>5</sup> Since that date, the public has been paying in the price of Birdseye foods, dividends or interest on twenty-three million dollars of inflated capital investment. The financier's profit of twenty-three million dollars was available to buy up more firms and continuously repeat the process. This game could not be played if low interest capital were readily available for competing firms to go into business with an assurance of a market, for they would then be able to greatly undersell General Foods' Birdseye subsidiary. With capital artificially scarce and controlled by large financiers, such competition cannot work.<sup>6</sup>

John Maynard Keynes thought that this economic problem could be solved by forcing the interest rate down by putting more money into circulation. He figured that the surplus of money would depress interest rates and the excessive burden of interest would no longer drain the economy of purchasing power. But this has never worked beyond a limited extent. As the interest rate falls, people stop investing or invest in other nations. However, Keynes felt that there was another approach to mastering the problem, one that in his opinion had theoretical promise. This was to directly tax money itself,<sup>7</sup> one of the least difficult forms of taxation. A direct tax on money (or currency) means that if money is not spent or invested its owners will be penalized - the money, or currency will decrease in value. Such a tax can be levied in a variety of ways. In the Guild era of Europe, money was taxed by requiring a periodic exchange of old currency for new - called the "renovatio monetarum" - and charging a tax for each time of renewal of money. In recent times the tax on currency has been accomplished by requiring a stamp to be bought to be placed on the money if it is to keep its face value. Many alternative methods have been suggested.

A taxed money ceases to be something to hoard out of use and becomes a "hot potato" - something that must be actively passed on as a medium of exchange. This tax leads people to actively buy and invest with their money to the point where there is full employment and balance of trade between regions and nations. It forces the interest rate to drop till it no longer harms the economy.

Consider, for example, the circumstances of the J.P. Morgan firm if its uninvested money had been taxed as was proposed by Senator Bankhead. In 1934, during the depths of the depression, the Morgan firm had bank deposits amounting to more than a quarter of a billion dollars in addition to a third of a billion dollars in other

resources. At this time, big banks had not invested a large proportion of their deposits so they had very great currency reserves. If the currency had been taxed, the banks would have been forced to lend this money at low rates of interest in order to avoid paying tax on the money. If depositors, like J.P. Morgan, were to take their money out of the banks which stopped paying them the excessive interest they had been used to, they would have it taxed. If they tried to deposit it in foreign nations they would take a loss since foreign banks would not accept such "hot potato" money unless they immediately were to buy from the United States with it.

This would make for a healthy balance of trade. Thus the Morgan firm's idle millions would have been forced into circulation, yet without interest, with a resulting stimulus to business, employment and to equalization in the distribution of wealth. Each person and organization would be obliged, for their own financial safety, to get rid of their "hot potato" money as quickly as possible. The bank, the corporation, the wealthy investor and the wage earner - all would seek to pass money on in quick exchange rather than holding it in reserve. Reserves would be kept in forms other than money - such as low or no interest securities.

The economics of taxing money was only considered as an abstract theory by such prominent economists as Keynes and Dudley Dillard. They were unaware that such a tax had actually been employed during several hundred years of European history and, more recently, in a number of small communities with resulting full employment and changed distribution of income. When it has been in effect, this tax has corrected the crucial economic problem we have been describing.

However, it is politically impracticable on a national scale. For the powers that rule the world in Europe, America and Russia are they that have profited by scarcity of capital. They would lose so drastically in power or in interest and dividend income, that they have used the great means at their disposal to block adoption of such measures of reform as well as inhibit public recognition of it.

The nation's thinking on the subject of economics has been warped to the point that it is unable to cope rationally with the national economy. For example, when Arthur Dahlberg (formerly chief economist of the government's National Recovery Administration and later for the Temporary National Economic Committee of Congress) described this very economic theory and the need for taxed money in his book, When Capital Goes on Strike, he received a letter from a leading economist praising it. But this economist wrote Dahlberg that he could not show this enthusiasm in a review

because his "reputation was at stake.

Large financial interests are particularly sensitive to what goes on in the economics departments of colleges and universities. In the late twenties, Antioch College came under intense nation-wide attack from a utility company. This attack was centered on Antioch's employment of an economist who was progressive enough that he was subsequently appointed to the National Labor Relations Board. One of Antioch's major contributors, Charles Kettering, told Antioch president, Arthur Morgan, that at this time, he (Kettering) had been bombarded by pressures to discontinue his contributions to Antioch. Most colleges do not have the courage and independence to withstand such pressure, or contributors as independent as Kettering.

In 1915 the U.S. Industrial Commission reported that the big corporations exerted through their foundations a degree of control over the teaching of professors in our colleges and universities which constitutes a most serious menace. David Horowitz in a series of articles in Ramparts during 1969 demonstrated that this is still true. Conformity in economic thought is true even in the socialist world. At the 1956 national convention of the American Socialist Party, Norman Thomas urged consideration of this new line of economic thought; a member of the executive committee privately remarked something to the effect that Karl Marx was good enough for him. The subject did not receive serious attention.

In the long run, the good economic society cannot be given to us without our thinking it through, working for it and achieving it through our own endeavor. The unappreciated is the easily lost. The healthly economy based on a taxed currency as it existed during the Guild era of Europe was lost because people had not acheived it through their own understanding and endeavor, but had happened on it unaware of the source of their blessing. It should be a matter of encouragement to us that if opposition were overcome, the federal government could begin such a new economic policy now. It would only need to discontinue issue of the old hoardable money and issue taxed currency up to the amount necessary for stable prices and full employment, leaving the old untaxed currency (many billions of which are in Europe) to be hoarded out of circulation until the government could buy it back - as though it were non-interest bearing bonds.

The harmful effect on the economy from high interest and artificially scarce money and markets is paralleled by the harm caused by artificially scarce land and high rents. This is due to the buying up and renting or selling at inflated prices, land and natural resources by the wealthy. Henry George's suggestion of taxing land values to prevent this has been, on a national scale and like the tax on money, politically impracticable.

Just as we have the example of community economic functions that have made possible healthy local economies within the old society, so we have the example of pioneering programs of land holding that can be begun under present circumstances to cope with this problem. In Israel the Jewish National Fund, contributed to by rich and poor alike, bought land and held it in trust in the name of the Jewish people for use by people living on the land, but not for exploitation and profiteering. In India the Gramdan and Bhoodan movement of the people initiated by Vinoba Bhave involve a similar procedure by which the wealthier give of their surplus land to be used and shared by people in need of land. Land trusts for America are now in the process of development that can serve the American people as these trusts have been serving Israel and India.

We must not be immobilized by the fact that money talks and is unwilling to be taxed. What we cannot do as a nation we can do where the public understands the issue and is behind the change - as associations, communities, counties, regions and even states.<sup>8</sup> Granted the "right analysis of the problem" that Maynard Keynes suggested was crucial to effective action, we can partly master the problem on a smaller scale by community initiative - where there is sufficient virtue, morale and competence of the communities involved. This is in line with the history of

the community as a fundamental unit of survival and action - biologically, culturally, politically, religiously, educationally and economically. In an earlier Community Comments we have described cases of such community action and we will be reporting on others in the future.

In the recent past it has been assumed that the small local community was necessarily insular, selfish, and antagonistic to larger loyalties to nation and mankind. The time has come when it is necessary to develop the community within the perspective of those larger values, if the latter are to be saved. There is a unity between the individual cells and organs of the body and the entire living organism. Such is the case for the local community and the whole of mankind. We cannot start at the top to rebuild the economy; we can and must start at the bottom building social and economic health for society.

Towns, counties, regions and states have the potential of developing healthily economic and social units even though the national economy and society have become grossly mismanaged. This was the topic of our Community Comments issue "The Community's Need for an Economy." Lacking such grass roots foundations, the top-down procedures of economic relief have been unreal bureaucratic manipulation leading in most cases to decreased local initiative and long term impoverishment. The sources of exploitation remain undisturbed while its end results are tinkered with.

To pioneer economic change on a small scale is to set a precedent for what can be done for the nation as a whole. This is how the revolution in China came about. It began with the development of community economic and social competence, on the part of leaders and people who sought to live free from want and exploitation, with self respect and integrity. From these local beginnings the change extended over the entire country. People can rise to heights of accomplishment if they are challenged to see the vision, and if there is competence and real integrity to be followed. The previous demoralized condition of the Chinese people gave no indication to superficial observers of the change that was about to take place.

It is possible to develop within the old economic order a separate, independent order of the economy that is committed to ethical values and disciplined social solidarity. Many minority groups have to one degree or another demonstrated its feasibility - such as the Seventh Day Adventists' rural communities, the Mormons, the Amish, the Black Muslims and other less sectarian communities over the nation.

In the dominant society, investors with capital ownership have no loyalty to the nation or community of their origin, but will invest without regard to the harm that will come from this investment. Where investors assume social responsibility for their wealth they can contribute to the new order, realizing that to hold stock in unethical corporations is to share in their unethical conduct. Landowners can in America, as they have done in India, share with the landless. Consumers can recognize their responsibility in the ways they spend to supply their income needs, and can divert their purchasing power to ethical sources of supply. In such ways the culture and purposes in a community can change the entire pattern of social and economic life.

Conglomerate corporations with much money seek to buy out local firms and enterprises with the objective of exploiting them - alike in American communities and in foreign countries. A recent congressional study determined that in most cases where firms were bought out by conglomerates they were less creative, less efficient and had poorer morale.<sup>8</sup> The owners that sell out their firms get some money and are relieved of responsibility, but the towns in which such industries are located almost always suffer and the workers as well as the consumers are more severely exploited by the absentee ownership. But where a community and region uses its own capital and masters its own economy it can resist these forces by subordinating selfish economic considerations to ethical ones. The economic strength of all concerned can be greater where there is solidarity than where mammon rules.

I once spent a weekend in the home of J. Fred Johnson a civic leader in the successful industrial town of Kingsport, Tennessee. During my visit the regional manager of an oil company came in and said he had been ordered to manage a distributorship in another region in a distant state. When he had protested that Kingsport was his community, that he had his home and civic responsibilities there, he had been told that if he did not move as ordered he would be blacklisted from further employment. Johnson took up his phone and arranged that this man should get a comparable position in another local firm. In this way civic solidarity won out against corporate tyranny. In contrast, Mr. T.K. Quinn, once vice president and slated to head the General Electric Corporation, reported in his book, Giant Business - Threat to Democracy, the experience of an outstandingly capable executive of the General Electric Corp. who had refused a company position of advancement outside his local community in which he had deep roots. Because this man placed loyalty to community before loyalty to the corporation he was thereafter blocked from advancement. Executives' positions are often forms of white slavery. Such people too have an interest in a new social and community ethic.

The prerequisites for achieving a sound ethical economic society are sound understanding, shared purpose, commitment, solidarity, subordination of self interest to the common interest and human brotherhood. These conditions are stiff ones, But there are enough pioneers with these standards to accomplish much change if they begin in a few places. If success is proved it will serve as an example to be duplicated by others.

In many American communities a remnant of integrity keeps alive the spark of social and economic health. We will cite some examples from among Ohio communities. In the town of Scio, for example, a pottery firm had gone out of business leaving hardship in the town. A workman took the initiative of reorganizing the firm as a community corporation and the community built it into a very successful endeavour. A tool making firm in Leetonia has for generations been making fine tools sold in hardware stores. Many times the firm has been asked to sell their industry to conglomerate corporations as another of the town's leading industries had done, but they will have nothing to do with this form of economic prostitution. Their community has, in turn, resisted the State Department of Education's demand that they consolidate their school system with that of a nearby city. Social and economic health still prevail to a significant extent in this town.

American communities have failed to fulfill their potential because the culture and mechanisms of our society have ignored this sort of community responsibility. Until recently, college educated youth were, to a great extent, prepared only to serve the large corporations and governmental bureaucracies and to leave

the ranks of their communities of origin. The stock exchange similarly draws people's money into investment in the large exploitative companies - away from the local community. Insurance companies that control a majority of America's invested wealth take people's insurance premiums and invest them out of the context of the community and its economy. Advertising stimulates people to buy beyond their means from large conglomerate corporations without regard for the community economy. The local community capacity to produce and supply local needs is bypassed by nationally advertised and promoted goods. The big dairy trust has obtained laws that make it unfeasible for local supply of milk, and big gasoline companies stage gasoline price wars to force independent stations and suppliers out of business, then raise the prices.

The cooperative movement dealt with but a fraction of the economic problems we have been describing. It forgot the organic local community and its economy as a whole way of life and aped the large corporations in building parallel corporate structures. The credit unions likewise did not question the basic pattern of interest and money, and play but an accessory role in alleviating the lot of the common man caught in the exploitative economic machine.

This complex of problems that destroys healthy economies is insoluble if each is dealt with in isolation. Where there have been people's movements with vision, adequate understanding and loyalty to larger values, these problems have been overcome and displaced so that man can have a better way of life and benefit from increased productivity of labor.

Fundamental to success in economic rehabilitation and renewal are ethical standards and the values of human brotherhood. Without them, all economic functions destroy human well-being. Capital extorts interest without regard to service; organized labor excludes the unemployed and racial minorities, limits production and on occasion extorts excessive wages; real estate operators gage the economy in land speculation, profiteering and rents; the consumer buys the products of sweat labor in a distant factory rather than the products of the honestly paid. Medicine has become controlled by self-interest and the drug firms that profit from illness; education serves the special interests that contribute to universities and control legislatures; and candidates for political office from the highest to the lowest sell their services to the largest donor of campaign funds. Cartels and conglomerates organize the market so that the utmost tribute is exacted before the products of labor reach the market place, and the largest farmers organization joins them in fighting against organized labor and legislation to protect the environment. The entire fabric of the nation disintegrates from the impact of selfishness.

The stress on all parts of society from competition for an inadequate market afflicts all ranks of society. It excludes from employment the old and young, the black and the Indian, accentuating antagonism between them. It leads to speedup and exhaustion of the lives and energies of workers, entrepreneurs and executives, and this stress extends into the lives of school children and college students. The suicide rate from the stress in college is the highest in the nation. Such an economy cannot afford to train the unskilled or to reclaim the half-used products of industry and forces the frantic exploitation of natural resources. Increasing numbers of people are seeking to escape the stress of this society by taking drugs or by retreating to another country with a more leisurely way of life.

Our business is to build an alternative - a better order based on the sound foundations of integrity and excellence of design and execution. There are great opportunities lying ahead for this sort of pioneering. Our greatest limitations lie not in our circumstances but in ourselves.

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"When, by taxes upon the necessaries and conveniences of life, the owners and employers of capital. . . find that whatever revenue they derive from it will not, in a particular country purchase the same quantity of commodities which an equal income would in . . . another, they will be disposed to remove to the other . . . The industry of the country will necessarily fall with the removal of the capital which supported it."

--Adam Smith, The Wealth of Nations

## FOOTNOTES

- 1 Owen, Robert, "Relief of the Manufacturing Poor", a report to the British Parliament in 1817.
- 2 Keynes, John Maynard, General Theory of Unemployment, New York, Harcourt, Brace and Co.
- 3 Ibid.
- 4 The first J.P. Morgan got his start during the Civil War when he bought, at little cost, a lot of discarded, worn-out and malfunctioning rifles from the United States government and advertised them at high prices for sale as in good condition. General Fremont in St. Louis was in desperate need of arms and ordered these rifles, only to find they were dangerous and useless. Nonetheless, the government paid Morgan for the rifles he had sold to Fremont. This was the general pattern of conduct of American financiers.  

President Lincoln said after the Civil War: "As a result of the war, corporations have been enthroned, an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working on the prejudices of the people till all wealth is aggregated in a few hands and the republic is destroyed. I feel at this moment more anxiety for the safety of my country than ever before, even in the midst of war."  
Quoted in T.K. Quinn's Giant Business - Threat to Democracy, Exposition Press, New York, 1953 pp 141-2.
- 5 Quinn, T.K., Giant Business - Threat to Democracy, Exposition Press, New York, 1953.
- 6 We use the Morgan firm as an example because it, more than any other, dominated the American economy and characterizes the conduct of most of America's great fortunes. (Documented in Gustavus Myer's History of the Great American Fortunes.)

FOOTNOTES CONT'D

7 Keynes found one fault with this procedure of taxing money. Recently a leading economist, Dudley Dillard pointed out that the fault Keynes had found in a taxed currency was really evidence of a fault in Keynes' and orthodox economists' thinking. Dillard himself could find no theoretical fault with it. This subject is analyzed in detail in the later essay in this issue, on page 19 of "The Economics of Non-Inflationary Full Employment."

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"As to income distribution and its results, we found in our study the proceeds of the nation's productive efforts going in disproportionate and increasing measures to a small percentage of the population--in 1929 as much as 23 per cent of the national income to 1 per cent of the people. . . . We found the incomes of the rich going in large proportion to savings and these savings strongly augmented by others impounded at the source by corporations through the practice of accumulating corporate surplus. These savings . . . we found spilling over into . . . the artificial bidding up of prices of domestic properties, notably corporate securities.

"Thus, we began to discern . . . whether the basic defect in our economic system . . . is to be found in the way in which we conduct the distribution of income. The answer is affirmative."

--Harold Moulton report of Brookings Institute Study, Income and Economic Progress.\*

\* In 1972 a Brookings study by Joseph Pechman found that in 1967 the income of the most wealthy one percent received twice the income of all 20 percent at the bottom--6.8 percent, a decided widening of the gap in the recent past.

## THE COMMUNITY'S POTENTIAL IN ECONOMIC PIONEERING \*

By Griscom Morgan

Economics, ethics, religion, education and the other aspects of community are different parts of one seamless fabric of life that are integrally associated with each other. To isolate them out of relationship with each other is to make each facet sterile and to disintegrate society. Our concern in this study of building a better economic order is to see it in this relationship with the whole of society, and yet practically in simple ways that are relevant to effective action and accomplishment in the local community.

### Definition of Terms and Concepts

Current thought about social and economic change suffers from inadequate thinking, semantic confusion and ill-informed action, alike among conservatives, liberals and radicals. The word "radical" is variously used to denote what is fundamental and also what is extreme and violent; "conservative" may mean either resistance to change or conserving a valuable heritage. If by revolution we mean profound rather than superficial or violent change, we must recognize that profound change generally grows from unobtrusive and small beginnings which incorporate much from the past heritage. Thus Karl Marx wrote that, "new higher relations of production never appear before the material conditions of their existence are matured in the womb of the old society."<sup>1</sup>

Because of his materialist philosophy, Marx was committed to reducing social forces to material causes, but his recognition of the slow underlying processes of change that presage profound outward modifications of society was clear. Who anticipated the revolution being wrought by the internal combustion engine before it began to displace horses, railroads, and ships with automobiles and aeroplanes? This was not an evolutionary reformation of the horse; yet its use in automobile and aeroplane went through a progressive evolutionary development of its own. Similarly the significance of changes in the basic pattern of society must be judged not by the slowness, suddenness, violence or extremism of their operation but by the profundity and soundness of their implications as they are conceived and as they develop.

### Building With the Best From Mankind's Heritage

Without appreciation of the values and accomplishment of existing society, endeavor to make social and economic change tends to become vandalism, the indiscriminate destruction of the precious heritage that makes us human. This is one of the more disastrously violated principles throughout modern society. An example will demonstrate this.

\* From July 1915 Community comment

A teacher in the Hopi Indian school was observed by a visitor to give no consideration or reference to the Hopi's own culture or heritage, leading her Hopi students to the conclusion that their own heritage was to be wholly discarded for that of the white man's. On being questioned about this she replied, "But what is there of the Hopi heritage worth preserving?" Those of us who know or value the Hopi heritage can recognize the blindness and harm in such lack of appreciation of a heritage. Yet a comparable failure in appreciation is common among those who would displace the present dominant culture and economy. Economics is so integrally interwoven with all aspects of society that ill-considered and wholesale discard of economic processes can disrupt the whole fabric of sane living.

In concrete terms of our present economy this means that we must not "throw the baby out with the bathwater" in discarding all aspects of the open market economy, of a money exchange system, and of individual economic freedom and initiative when we would eliminate the curses of an economy dominated by individual and corporate self-interest.

Our open market economy has enabled us to have freedoms we little appreciate, freedoms allowing creativity and efficiencies that are separable from the evils that have so greatly discredited it. It has been widely assumed by both radicals and conservatives that the faults of our present economy were inseparable from economic freedom and that the alternative was to have all economic processes managed by remote bureaucracies and authorities armed with computers who would allow little freedom for people to choose what they would do with their lives and resources, what they would eat, where they would live and what work they would do--the present tragic experience of the underprivileged.

Those who are desperate may be led by despair to choose totalitarian planning and control over the economy that will guarantee full employment and a minimum of human dignity. It is our business to seek a better way, keeping and improving on the freedom we have while achieving justice and equity. Such a combination of values requires both a better design and function in the economy and discipline and motivation to make it work.

#### Alternatives to Extremist Violence and Ineffectual Reformism

There is much disillusionment with procedures for social and economic change because so much has proved futile or harmful. Violence of change tends to bring tyranny, chaos, and destruction. Reformism accepts the basic postulates of an outworn social and economic order, only reforming some of its more gross symptoms. There is a place in history for the broom of drastic change to sweep away the old order, but the broom does not create the new order, and will leave only destruction and poverty if there is not the slow creative evolution of that which is to take the place of

the old--as Marx expressed it, "within the womb of the old society." So we must recognize the different roles in history of explosive rapid and laborious slow change.\*

The real and significant social and economic change we want can best be achieved through identifying the specific causes and limitations in the old order and developing new patterns of life and economic relationships, free from those limitations, that we can apply and develop in our own lives which will enable us to start the course of a better society. Success in building a new pattern on a small scale can grow and become infectious, spreading by virtue of its inherent beauty, effectiveness and value. This is the antithesis of both "reformism" and violent extremism, for its character is in the origin of the word "radical", going to the roots of things, while it has no implications of indiscriminating destruction of invaluable aspects of the heritage of the past.

#### Examples of Success in Alternatives

The most potent and practical means of advance is to change the "game" and consequently the rules of the game by which we live, here and now, and to do it in disciplined and discriminating association with others similarly committed. In the seventeenth century the Society of Friends in this manner developed a new order of society among the common people at a time when the ethics of economic life were very low. Among other things, it undertook to establish as the standard for its membership that they would deal honestly not only within the Society's own membership but also with the public at large. The Society prospered because people preferred to employ and do business with those who could be trusted to serve industriously, creatively and conscientiously. Their standards then tended to displace the older unethical practices.

To make the change accomplished by the Society of Friends required an organized society with a whole perspective of life, a discipline, and an education that would reinforce it. It could not come into being through isolated individual departures or by mere emotional and verbal assent, but required commitment and willingness to pay the price for it among those who joined in this non-violent movement. At a time when many groups were violent and

\* Danton, the greatest leader of the French Revolution wrote: "At last I perceive that in revolutions the supreme power rests with the most depraved." Robespierre, the leader of the extremists in the period of terror, wrote: "The misfortune of revolutions is, that we must act too hastily; we have no time to examine. . . and are in a mortal dread that our ideas will miscarry for lack of energy." And so it was also in the Russian revolution. --Quoted in Ca Ira or Danton in the French Revolution by Lawrence Grunland.

conspiratorial in trying to unseat the repressive national government, the Society of Friends was open in its aims and organization and maintained objectives that decent people of all races, classes and political associations could respect and find attractive. The public came to trust and respect these people, even though at one time half of the adult membership were in jail for insisting on meeting in public when such meeting was prohibited; they thereby won civil liberties for themselves and for others.

What the Society of Friends accomplished is paralleled by many other groups and movements for social change, each with its own special emphasis, overall life purpose and economic competence. (One of the most significant is the Ghandian movement in India.) The change accomplished by most of these groups has been limited in conception and benefit because for the most part they did not have a sufficiently broad scope of understanding and they failed to examine some of the underlying assumptions of the prevailing economic order responsible for social injustice, exploitation and degeneration. They had been virtuous parts of a society whose underlying character was faulty. Only the greatest of them had some recognition of this fact and the vigor to break out of the dominant social order.

John Woolman, who more than any other man initiated the anti-slavery movement, saw the equivalent of slavery within the established economic system, and wrote:

"Though the poor occupy estates by a bargain to which they in their poor circumstances agreed, and we ask even less than a punctual fulfilling of their agreement; yet if our views are to live in conformity to customs that have not their foundation in the truth, and our demands are. . . greater. . . than is consistent with pure love, we invade their rights as inhabitants of that world, of which a good and gracious God is proprietor, under whom we are tenants.

Thus oppression in the extreme appears terrible, but oppression in more refined appearances remains to be oppression."

#### Precision in Definition of Problems and Solutions to Follow

We have said that to achieve a good society free from the faults characteristic of our present social order it is necessary to go deeper than just individual well-doing, and to change the "game" and the rules of the game so that the dynamics of our economic society will not be harmful. We cannot do this if we do not adequately understand these dynamics, the underlying causes of harmful conditions in our economy that so afflict society. Given such understanding we can proceed to make clear a program of action that people can engage in here and now that will make for fundamental correction and betterment of society. We will here briefly define two underlying causes of social injustice and social deterioration that can be corrected by beginning in united action through small pioneering community endeavor.

Characteristic of the existing social order is its tendency to depress income and living conditions of a significant portion of the people, accentuating the division of society into wealthy owners, workers and the poor, and bringing problems of unemployment, depression, perpetual inflation and economic imperialism. Thomas Jefferson observed this taking place in the England of his day,\* as we now observe it. Two Englishmen of his time, Robert Owen and Thomas Hodgeskin, pioneered in recognition of this problem (their thinking was the background of Karl Marx's economics); their diagnosis has been confirmed by many economists as in the findings of the Brookings Institute.<sup>2</sup> This may be summarized as follows.

Unemployment and economic crises occur primarily because the general population does not receive or spend sufficient income to purchase the product of their labor, leaving a surplus in the hands of the owners. The amount of money received from the sale of goods is so much larger than is paid to labor that the difference in profits and interest is then available for savings and investment. But with inadequate market for the surplus of goods already produced, there is inadequate justification for investment in more productive capacity, or to employ all the labor force, so their money savings flow out of circulation. Competition for inadequate markets leads to a dog-eat-dog competitive society. Depression of wages results from the surplus labor force competing to find work. The wealthy class with surplus income seeks to find safe forms of investment with their money and buy up economic resources, leaving the poorer people propertyless, disaffected and alienated.

#### Lesson From a Historic Era of Economic Well-Being

These harmful economic conditions have not always accompanied free market monetary societies. Some economic historians, both Marxist and non-Marxist, have pointed out that in contrast to the pattern usual in history, during the period in medieval Europe when

\* In a letter to Dr. Thomas Cooper of September 10, 1814, Jefferson described the lot of the people of England. After telling of the three categories of the population--the wealthy, the laboring class and the paupers, who, he said, "are about one-fifth of the whole," Jefferson wrote: the first category, "which have the laws and government in their hands, have so managed them as to reduce the third description below the means of supporting life, even by labor, and to force the second, whether employed in agriculture or the arts, to the maximum of labor which the construction of the body can endure, and to the minimum of food. . . which will preserve it in life." The result is, "The pauperism of the lowest class, the abject oppression of the laboring and the luxury, the riot, the domination and the vicious happiness of the (well-to-do). Such is the happiness of scientific England." Jefferson wrote that even the black slaves in the United States "are better fed in these States, warmer clothed, and labor less than the journeymen or day laborers of England. . . ."

the guilds were strong there was freedom from economic crises and unemployment.\*

The period of several hundred years of unexampled continuous prosperity in medieval Europe occurred not because it was a "pre-capitalist" primitive economic society as Marxist and capitalist economists have assumed, but because the underlying dynamics and cause of the harmful condition of capitalism was temporarily eliminated. Both before and since then the conventional economic order has afflicted mankind and accentuated the downfall of civilizations back through history.

If we could today have the benefit of freedom from the curses of economic crises, inflation, unemployment, community disintegration, and the development of extremes of poverty and wealth and yet maintain a free market economy, we would not need to sacrifice economic and social freedom for inefficient, vastly complex top-down bureaucratic governmental management of economic processes. Such accomplishment is greatly to be desired. But to accomplish it we must have a precise understanding of how it was accomplished during that unique period of European history. We have discussed how this took place in greater detail in our essays The Simplicity of Economic Reality and The Community's Need for an Economy.

#### Monetary Cause of Medieval Well-Being

The harmful condition of capitalism was eliminated in medieval Europe by an accidental circumstance. Today we assume that the cost of printing and managing our system of coinage and currency should be a governmental expense paid for by general taxes. But during this medieval period of prosperity such costs were paid for

\* Brooks Adams wrote of this: "From the middle of the twelfth to the middle of the thirteenth century was an interval of almost unparalleled commercial prosperity." (The Law of Civilization and Decay.) Julian Borchardt, author of the classic The People's Marx, wrote in his essay, The Essence of Marx's Theory of Crisis: "It is a matter of general agreement that the (economic) crisis constitutes a grave disturbance of equilibrium between production and consumption. . . The question rises: was this always the case? or was there a time in which no such disturbance occurred--nay, may even have been impossible. We know nothing of any commercial crises during the Middle Ages, that is to say, of serious ruptures, of the equilibrium between consumption and production. Or, at any rate, we know only of such as had their origin in external causes. . . But we do not read of any which, as is the case today, had their origin in internal causes and derived from 'over-production.'"  
Included in Capital and Other Writings by Karl Marx, p. 302  
Modern Library, N.Y. 1932

by a direct tax on periodic and frequent reissue of the currency when exchanging the old for the new. This was an easy and inexpensive system of taxation and it was used to raise much more revenue than necessary to pay the cost of the currency system.

In practical effect this form of taxation made money unhoardable. It made it impossible for people to save money out of circulation, or to exact high interest for lending it. With money no longer hoarded out of circulation, the resulting circulation and supply of money assured an adequate market for goods and labor. At the same time it eliminated the threat of runaway inflation, for runaway inflation is the consequence of people and banks having kept much savings in the form of currency, as those in Europe have stored away so many billions of American dollars.

With the forced use of money as a medium of exchange and not of saving, savings must be invested in real wealth. The necessity to invest forces the reduction of interest rates to the point that all surplus income that people desire to save is forced to be invested at interest rates that are not too great a burden for borrowers to pay. In such ways enough money can be maintained in circulation as to yield full employment, without threat of inflation. This kind of an economy, such as prevailed during the guild and gothic era of Europe, can be practiced by nations, groups and communities of people today.\* Successful experience and means for this have been reported in previous Community Comments.

Most socialist governments have been relatively ineffectual in creating a sound economy because with the prevailing inadequate understanding of the cause of failure of the free market economy, they have centered their attention on nationalizing major industries and on building a welfare state by which to palliate the malfunction of the economy, leaving that malfunction uncorrected. Thus

\* The theoretical feasibility of such an economy has been carefully examined by Professor Dudley Dillard, head of the Department of Economics at the University of Maryland. He wrote: "It should be observed that there exists, so far as this author is aware, no satisfactory refutation of these proposals." --"The Theory of Monetary Economy", an essay in Post Keynesian Economics, edited by Kurahara, Rutgers University Press, 1951.

In 1940 the Congressional Temporary Economic Committee Investigation of the Concentration of Economic Power issued a study of Recovery Plans made under its direction by a prominent economist, Dr. Arthur Dahlberg. This study, Monograph No. 25, found but one plan sound and feasible for a stable economic future for the nation, the taxation of money. In a later book Money in Motion, Dr. Dahlberg reported the historical application of this principle in medieval Europe. Legislation for such economic policy was introduced in the United States Senate by Senator Bankhead. Senator Bankhead has been quoted as saying that if this legislation had passed he believed it would have headed off and avoided the Second World War.

they dissipated their energies on peripheral and often on unnecessary issues while the key source of private monopoly power and exploitation continued to dominate and harm the economy. Some leading socialists such as John Strachey and Sir Stafford Cripps came to recognize this, conceiving of a taxed money system as a key measure in achieving a healthy economy, but they had little support from other socialists.

#### New Forms of Land Tenure Also Necessary

The economy of medieval Europe had one serious fault that did much to counterbalance its blessings. This was that while the wealthy could not hoard money out of circulation and make it scarce, they could and did hoard that other basic necessity of life, land. Consequently, it was an era of widespread feudalism, as well as of community owned lands. The concentration of ownership in the hands of people who exploit their ownership of this basic heritage of mankind can in this age be corrected on a beginning sale as it was in medieval Europe by groups and communities. Just as the nation of Israel during the past half century has established and developed a national land trust to hold title and distribute use of land to which it holds title, so can we. We can develop land trusts to acquire land to be used and conserved as seems appropriate to society's and nature's needs.

#### The Culture of Economic Life

Such means for the improvement of our economic society are needed, but as technologies alone they are not enough, and if achieved they would not assure a good society. More fundamental than these means of improving the economic order within the circumstances of our own lives is the culture of economic life, for that culture can progressively transform any circumstance into a more or less beneficial one. Elsewhere in this issue of Community Comments we print Dale Miller's account of how a society in Akron, Ohio, has worked in terms of a different culture and spirit in creating a new economic base for a new society. We must be precise in determining what aspects of our cultural heritage are at fault, and not be ruthless and indiscriminate in casting aside the existing culture. It is helpful in making this definition to refer to the writing of a great English man of letters who almost a century ago prophetically defined the problem facing us today. He wrote particularly of middle class England, but the same could be said of all classes:

"Our present social organization, however, will and must endure until our middle class is provided with some better ideal of life than it has now. Our present organization has been an appointed stage in our growth; it has been of good use, and has enabled us to do great things. But the use is at an end, and the stage is over. Ask yourselves if you do not sometimes feel in yourselves a sense, that in spite of the strenuous efforts of so many good persons amongst us. . . we seem to be finding ourselves stopped on this line of advance and on that. . . It is that we are trying to live on with a

social organization of which the day is over. Certainly equality will never of itself give us a perfect civilization. But with such inequality as ours, a perfect civilization is impossible.

To that conclusion, facts, and the stream itself of this discourse do seem, I think, to carry us irresistably.

The well-being of the many comes out more and more distinctly, in proportion as time goes on, as the object we must pursue. An individual or a class, concentrating their efforts upon their own well-being exclusively, do but beget troubles both for others and for themselves also. No individual life can be truly prosperous, passed, as Obermann says, in the midst of men who suffer. . . To the noble soul, it cannot be happy; to the ignoble, it cannot be secure. . . our inequality materializes our upper class, vulgarizes our middle class, brutalizes our lower.

And the greater the inequality the more marked is its bad action upon the middle and lower classes. What a strange religion, then, is our religion of inequality!

--Matthew Arnold in his essay Equality

Indeed, our economic problem is fundamentally a religius one--not in the theological and sectarian sense of the word, but in the universal sense of which Mazzini wrote, "Religious thought is the breath of life of humanity: at once its life and soul, its spirit and its outward sign."

The most important power in history is the human spirit inspired with high purpose, disciplined with experience in collective action in the affairs of life at hand in daily living, and working together with others of common purpose. Historical and economic laws are like the laws of mechanics which the engineer must master in developing the aeroplane or locomotive. It is people who give them life, intelligent direction and force. And that force must be exercised, developed and applied where people are in their daily affairs of life. It is there that the real and fundamental changes in history are accomplished.

#### References

1. Karl Marx, Capital and Other Writings, p. 8, Edited by Max Eastman, The Modern Library, New York, 1932.
2. The Brookings Institution, Income and Economic Progress, 1935, by Harold Moulton, and other studies by Moulton and others.

REVIEWS

The Liberation of Work, by Folkert Wilken, (London, Routledge and Kegan Paul, 109 pages, \$3.00).

In The Liberation of Work Folkert Wilken offers a series of case studies in business reform, discussing various English and German enterprises that have taken steps towards the ideal of a community of work. Wilken sees a natural pattern of business organization evolution from the pioneering entrepreneurial start, through a stage of social partnership between owners and workers, towards a community of work where the ownership of capital is "neutralized" and held in common trust by all community members.

Work both as individual creative activity and as a group activity is essential in human growth. This attitude towards work tends to develop as a business matures. Attention shifts from a commercial view preoccupied with making money to a social conception of what the business purpose is. As such attitudes grow the autocratic structure of business organization often frustrates this shift, leading to labor conflict, executive neurosis and so on.

Wilken outlines in particular detail the organizations of the John Lewis Partnership and Scott Bader and Co., Ltd. The John Lewis Partnership is a retail enterprise with 16,000 employees in branch department stores throughout England; Scott Bader and Co., Ltd. is a manufacturing concern employing 300. Both businesses are now owned by commonwealth trusts made up of company employees. The trust arrangement was the result of an effort by the entrepreneurs (Scott Bader and John Lewis) to share profits and information about the business and finally share power. With the reform initiative coming from the owners, the process of turning over control required decades of education, motivation and development of concern for values among employees who wanted little responsibility for business operation.

The Liberation of Work is one invaluable guide to business reform.

A WOMEN'S COMMON-OWNERSHIP COMPANY

A "work-in" by a small group of women in England has led to the exciting development of a women's common-ownership company, as reported in the July issue of Ms. magazine. In its "Notes from Abroad", Ms. reports that after a small shoe company in Fakenham, England, had given its 44 women machinists notice of its closure, nine of the women decided they didn't want to abandon their work: "'We had to do something to keep our business alive and our skills

alive.'" Resisting the barricades, the pleas of their union and their boss, they continued to work in the factory. In doing so they were questioning the right of private ownership to have power over their lives. They knew that their actions were illegal, and that technically they were trespassing, but they got strength from each other and continued to work without pay, hoping that eventually another owner would take over the company. Most of the townspeople and many of their friends thought they were crazy and gave them no support, but their husbands and the local newspaper rallied behind them. The police also helped with the night guard duty. After a "London Sunday Times" article appeared, resulting in contributions from different groups of people, the owner of the company finally stopped trying to break the "work-in".

The women whose former jobs had been the manufacture of shoe tops, enjoyed their newly won freedom and began creating many different leather articles from left-over scraps. They sold them at local businesses and used the proceeds to buy new materials. After working four months without pay, Scott Bader Co. Ltd. gave them a low interest loan with no definite repayment date, and a lawyer volunteered his services to help them establish Fakenham Enterprises Limited, their common-ownership company. The women, as equal shareholders, elected a director and two assistants. They hold bi-weekly meetings and make most decisions by consensus. They've travelled a rocky road towards establishing a sound business, but through their united efforts and support of people like Scott Bader Co. Ltd., a sympathetic lawyer and a management expert, they've developed a going concern which has won three contracts for its products. Also, their way of dealing with each other has changed. "'Before we worked-in,'" says Edna Roace, "'we just worked and that was that. Before, if any of the girls had problems we wouldn't have dreamed of helping them out the way we do now.'" The Fakenham women through mutual support, collective action, and "a little help from their friends" affected a change they would never have imagined back when they were workers in the shoe factory.

WE SHALL NOT WANT  
The Economics of Non-Inflationary Full Employment\*

I

Our Enemy--Unemployment

A backlog of unemployment has been the rule in American history. Wartime full employment led to inflationary rising wages and prices and hence to price controls; the rare times of full employment in times of peace have brought inflation and labor's loss through rising prices of much of the increase won through rising wages. So even organized labor tends to place union privilege before the value of full employment. Unemployment has of course been a discipline to the irresponsible and a cushion to the economy; to blame all unemployment upon our economic structure is folly. Yet, like slavery, chronic unemployment in the economy is wasteful and deteriorating to individual and to society.

Unemployment affects most severely those discriminated against and least well established in the economic world--American Indians, Mexicans, Negroes, youth leaving school, and older people. Of these, no segment of the population is so drastically affected as Negro youth in the large cities into which Negroes are being displaced and crowded. Consequently the demoralizing and degrading experience of prolonged unemployment is the lot of a significant proportion of American Negroes.

While it is important to eliminate the discrimination against

\* first published in 1965 by Community Service Inc.

minorities by employers and organized labor, this approach will be of but limited effectiveness so long as unemployment forces labor to compete for an inadequate supply of jobs and to fear competition from any source. Equally important is the correction of the causes of unemployment as a characteristic of our economy. Least understood and most important of the causes of unemployment is our medium of exchange. For, as the distinguished economist Dudley Dillard has pointed out, "money in its role as a store of wealth stands as a barrier to full production, that is, unemployment is caused by money."<sup>1</sup>

A correction of the root causes of unemployment is becoming increasingly necessary, for displacement of labor by automation is being forced on American industry to enable it to compete with low costs in other countries. Unskilled and underprivileged labor is increasingly eliminated as well as the smaller employers who should be able to give them employment. Automation augments the problem of employment not because it is itself harmful, but because it is a tool of an economy that depends on and involves a scarcity of purchasing power and a surplus of goods and labor.

## II

### Economic Paradox

Under the Kennedy administration the government's intention to promote prosperity through lowering of federal taxes--and the reason for it--was evidence of something deeply amiss in our economic system. Why, at a time of

unbalanced budget, already heavy public spending, immense public debt, and normally active economic life was it necessary to lower tax rates in order to stimulate investment and create adequate employment and economic activity?

The government then sought to change the tax structure so as to leave greater purchasing power in the hands of the general public to create an adequate market for our economy and with it adequate profits, employment and active investment in areas of need. The government could have greater tax income from the increased national income. But why, for the past thirty years has the nation always had to have an unbalanced budget to have adequate economic activity?

Gerard Piel, publisher of Scientific American, defined this problem in an address to the American Association for the Advancement of Science:

The American economy is a sick patient living on injections of deficit financing. The injections have concealed the symptoms, but the patient is still just as sick. We are stuck with an arms industry because it is the only way to prop up an outmoded economy.<sup>2</sup>

William Irwin, who for years was chief economist and educational director of the American Bankers Association, viewing the peril of the American economy stated the challenge to us:

The American system...can be preserved only if those who wish to see it preserved will ask themselves the question 'why is it being curtailed?'...It has continued to create huge aggregations of wealth...that seem to overshadow even government itself...It has failed on its own initiative to find remedies for the crushing impact of business depressions...It has failed to find the remedy for unemployment. (American businessmen) apparently have wanted plenty of surplus labor, whether tragedy was involved or not. That an...income-less man was a lost customer did not seem to occur to them.

If we fail to do the things that the history of the past 50 years has taught us need to be done, we shall deserve whatever we get. American business has the brains, it has the means, and the time for action is now. 3

Today the world has an object lesson in Germany and Japan, now enjoying the most active prosperity, full employment and economic development in the world. But this lesson can be dangerously misused. For example, in the March 1963 Harpers magazine Peter Drucker writes, "Japan and West Germany should be a convincing answer...to fears of the economic effect of disarmament." 4

If the American economy were appropriately organized, disarmament could liberate a tremendous capacity for production in the public interest. But even with a heavy defense industry there is widespread unemployment of productive capacity. Unlike the victorious United States, Germany and Japan both had drastic inflation following their defeat, consequently their public and private indebtedness was largely wiped out; also since they were disarmed, they were relieved of defense costs. Being relieved of the burdens of war, the defeated nations were in the position to sell at an advantage on the world market. Yet more important, severe inflation profoundly changed the saving habits of these nations, giving them the practice of actively spending and investing their income in within their own nations productive wealth/rather than holding their savings in the inactivity tariffs that causes depression. Japan's also protected its labor and industry from foreign competition and its money supply from depletion by importation excessive consumer from outside Japan. But these advantages, which the United States was not in the position to share, could

change overnight as has happened countless times in history when loss of confidence in investment opportunities leads people to stop actively investing and spending their incomes. For with conventional types of currency profitable boom times of full employment have carried with them the seeds of ensuing depression.

The process by which our economy is imperiled has been too simple for most people indoctrinated in conventional economic theory to grasp. The great economist, Maynard Keynes, writes of this: "the ideas...are extremely simple and should be obvious. The difficulty lies not in the new ideas, but in escaping from the old ones...which ramify in every corner of our minds." Of those old ideas Keynes wrote, "The characteristics...assumed by the classical theory happen not to be those of the economic society in which we live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience."<sup>5</sup> This remains true today, even of many Keynesian economists; for while Keynes' great work was itself, in his words, "a struggle of escape from habitual modes of thought,"<sup>6</sup> (as we shall show in section V) on a crucial issue Keynes' own thinking did not sufficiently escape the tyranny of those modes of thought.

The past thirty years indicate that while business cycles can partially be evened out by heavier spending by the government when depression threatens, there still remain such chronic deficiencies of economic activity that continued deficit spending, expanding the national debt, becomes necessary to avoid depression and unemployment.

Even with such deficit spending there are symptoms of chronic depression, with a continuous high rate of unemployment.

This ingrained tendency of the economy toward depression was partially recognized by Maynard Keynes, for as Dudley Dillard, professor of economics at the University of Maryland points out, Keynes' "theory of employment suggests the inevitability of unemployment...except by measures that extend beyond conventional forms of monetary policy."<sup>7</sup> But it is not just employment, but the whole economy that is basically unstable. Whenever during the past forty years the national budget was balanced, depression has ensued. In fact, balancing the budget has been found to be as impracticable as it is necessary. The explanation of this paradox is as simple as it has been obscure.

### III

#### The Economic Disease

As a research physician with great care might study a disease in its workings and ramifications and pronounce it fatal, so did Brooks Adams, in his pessimistic book, The Law of Civilization and Decay, study the historical concentration of wealth and power in civilizations, and pronounce the process fatal. President Theodore Roosevelt wisely evaluated this book in recognizing that what such great insight and scholarship had made understandable could likewise be made correctable. This has happened in the control of diseases once many that had been declared "fatal."

There is today no more important task of social science than that

of understanding the economic forces that have with increasing severity afflicted mankind and destroyed promising civilizations. For war, imperialism, crucial aspects of the population problem, urban degeneration, insanity, and poverty are all to a significant extent caused by the historical processes that Brooks Adams so clearly delineated.

Hitler took power because of the despair engendered by economic failures evidenced in terrible inflation, depression and unemployment. Marxian Communism arose to a great extent because of the consequences of these processes, as carefully documented in Marx's Das Kapital. To concentrate attention upon these many fruits of the process and fail to recognize and cope with the process itself will inevitably lead to failure on many fronts, despite the advances of science and technology.

Since the original settlement of America, property control has almost continuously been concentrated in the hands of the few and out of the hands of the general public. The same process has taken place in almost all past civilizations. The consequences have been quite uniform, as Brooks Adams has shown, and as was succinctly expressed in Oliver Goldsmith's famous lines:

Ill fares the land, to hastening ills a prey,  
Where wealth accumulates, and men decay. 8

The continuing trend in America has been documented as of 1956 by Professor Robert Lampman of the University of Wisconsin:<sup>9</sup> the millionaires increase, the disposed increase, and power is more centralized. The poorer third or quarter are increasingly forgotten and demoralized, despite the unprecedented wealth of this nation.

Horace Grey, Professor of economics of the University of Illinois, in 1962 commented on the Lampman findings: "The structure of ownership being what it is, continuation of these wealth-concentrating practices will inevitably increase the percentage of wealth held by the top wealth-holders. If they keep their portfolios in favored forms of property, they need only sit by the cash register and wait. This strategy has paid off handsomely in recent years."<sup>10</sup>

The role of extortionate usury in expropriating a people's wealth is well known. Interest rates of thirty to sixty percent can quickly devour the property of a people in debt, rendering them subject and dependent. But throughout most of history the dominant interest rates have been remarkably stable, averaging around five percent, rarely falling more than one or two percent below this amount. The effect of this historical interest rate on economic life can be suggested by the simple calculation that at six percent compound interest a penny invested at the time of Jesus would now be worth the weight of the earth in gold--in a time spanned by the lives of twenty-five eighty-year-old men.

An excessive rate of interest of itself is of secondary importance in comparison with the fact that it is accompanied by a yet higher rate of profit that must be drawn off from industry and commerce to pay dividends on investments in order to persuade investors to invest in industry and commerce. These excessive profits as well as interest accentuate the growth of extremes of wealth and poverty. Inflation, progressive income and inheritance

taxes and other losses have not sufficiently drawn off this concentration of wealth to counter the terrible process of compound growth.

Many economists have hoped to counter the trend toward concentration of wealth by such processes as taking a sufficiently large share of the income and profits of the wealthy by progressive income, inheritance and corporation taxes, by enforcing competition through anti-trust measures and price regulation and through forcing interest rates down by saturating the market with money. All of these measures have been tried and all have failed or been inadequate so far as achieving the objective was concerned. The more income and profits are taxed the less incentive is there to invest in needed economic enterprise. The higher the tax on incomes and on enterprise the higher becomes the cost of living and of doing business, and consequently the less can domestic industry and labor compete with labor and industry from other nations with a lower burden of taxes. These are major reasons for reducing taxes today. The lower the rate of profits with the present financial system, the more investment will leave the economy for other nations where the rate of profit and accumulation of wealth has not yet throttled the economy, and where there are not such high costs of goods and labor. Inflation is so desperate a remedy that it is feared throughout the world, even by those who, like the Japanese, have most benefited from it.

## IV

## Need For Active Circulation Of Money

Freedom and justice are basic conditions for a healthy enduring society. Human freedom depends on its economic counterpart, economic freedom and opportunity for individual, community and region. The concentration of wealth and power accompanied by widespread unemployment and accentuated by cycles of depression and inflation is inimical to freedom and wellbeing. This development is a consequence of a deep seated but unnecessary quirk of our economic system.

Our free market economy requires a vigorous and continuous circulation through spending and investing if there is to be adequate trade and full employment. Fear of changed market conditions can suddenly cause the nation's money to be spent too slowly--for example, 10% less rapidly, resulting in 10% decline in the national income, and hence in employment, far too rapidly with resulting inflation. If we were to see the national income as a pie divided among the American people, we would see the general public receiving a share insufficient to buy back what is produced. Conversely the remainder which goes to "capital" (which includes all who will not spend for private consumption their current income) is larger than its owners find sufficient attractive opportunities to invest. They find less and less profit in investing it in additional productive capacity when the nation cannot even buy what is already produced.<sup>11</sup> If this surplus income continues to flow out of use we have spiraling unemployment and depression.

Under normal circumstances the government faces the apparent alternatives of massive borrowing and spending of otherwise unspent or too slowly spent income, or of depression and economic collapse.

So disastrous are the consequences of economic paralyses that democratic governments have commonly chosen an alternative course--borrowing the idle surplus and putting it back into circulation by military or other public expenditures, or issuing new money for the same purpose, to finance governmental spending. The public debt consequently grows billion by billion, and with the debt the interest on it and the taxes to pay the interest. This continues to the point that investment and enterprise cease to be satisfactorily profitable within the nation, and the capital migrates to other newer economies with low costs and high profits. The spector of runaway inflation, the meanwhile, hovers in the background.

## V

#### An Historical Precedent

For long we have had evidence that one era of civilization was free from the forces that Adam Smith and Brooks Adams described as a major cause of decay of past civilizations. In that era a high order of urban life and culture developed in many small towns in Europe, employment and wages were high, resources were conserved, arts and sciences were developed. Medieval Europe underwent a remarkable industrial revolution different from those that followed in that it did not result in widespread unemployment and misery. Lewis Mumford in his Culture of Cities tells that "the breeding of horses, the invention of an improved harness and the use of the iron horseshoe, the spread of querns, waterwheels and windmills--these improvements endowed the new communities with relatively vast sources of power."<sup>12</sup>

Brooks Adams states the consensus of economic historians: "From the middle of the twelfth to the middle of the thirteenth century was an interval of almost unparalleled commercial prosperity."<sup>13</sup> Even without modern technology people thrived as seldom in history. It was

not utopia or the golden age, and it did benefit from the development of paper money and the new commerce with the Muslim civilization then at its height. But the particular economic and social forces that in past civilizations and today depopulate hinterland areas and concentrate wealth and population into huge population centers, cause depression and unemployment and threat of runaway inflations, and develop extremes of wealth and poverty--these did not prevail in many medieval European cities.

Until recently the crucial economic causes of this period of remarkable prosperity were not understood, but today we have discovered what they were, and have experimentally reproduced them in local economies with similar results.

For a resume of what happened in these economies in medieval Europe (exclusive of the six big orthodox international financial centers,--Paris, London, Genoa, Constantinople, Venice and Florence, the only European cities of that period that had more than ten thousand population) we refer to a current book by the economist Arthur Dahlberg, director of the visual economics laboratory at Columbia University and president of the U. S. Economics Corporation:

For three hundred years medieval Europe experienced a tremendous and continuous building boom. The cathedrals, castles and town halls are still there in large numbers for all of us to see. Most historians have merely reported the boom occurrence and have not sought to explain it.

It happened, however, that during the three centuries of that boom the main money of the time was being impelled, and not merely lured, into use. One can reasonably surmise that the novel monetary arrangement was one of the major causal factors behind the boom...

In his booklet, 'The Gothic,' Dr. Hugo Fack examined at length the impact of the unhordable money at the time of the continuing prosperity. He wrote: 'Writers of that period agree that the era was an age of plenty--that general

prosperity had spread to all who worked--that wages were unbelievably high--that the satisfaction of material wants gradually led to working a smaller number of hours--that homes were richly equipped, that peasants were wearing silver buttons on vest and coat, and using big silver buckles and ornaments on their shoes! Johann Butsbach, one of the chroniclers of that period records, 'The common people seldom had fewer than four courses at dinner and supper...'

Monday was a free day, the so-called Blue Monday. That day was set apart so the people could attend to their private affairs... Since the number of official holidays, moreover, was at least ninety, the journeyman actually did not work more than four days a week, and on these four days the hours of work were strictly regulated. When the dukes of Saxony tried to increase the working time from six to eight hours a day, the workers revolted.

The question naturally arises: How did it happen that this period became filled with abundance--even without having the productive power of the modern machine available? How was it that the joy of life rang through the land from high to low?

Apparently it was not the result of some five or ten year plan. No bureaucratic government of alphabetic agencies arranged it. To quote Hugo Fack again, 'It had been the custom for rulers to issue money stamped with their insignia, name and portrait, and these coins would remain valid even after the death of the ruler because the coins had a definite metal value which permitted them to be preserved and stored and hoarded.'

At the start of the Gothic, however, traditional practice underwent an amazing transformation. Rulers began to recall the money issue of their predecessors in exchange for new coins with the insignia of the new regime. And in order to fill their treasuries, this change-over, termed 'renovatio-monetarum'--renewal of money--became subject to a special reminting charge (seigniorage fee) of ten to twenty percent. Since this reminting fee proved to be a very profitable means of taxation, all the many secular princes who had acquired the right from the government gradually developed the habit of recalling their own money-issue each year.

The regular periodic withdrawal of coins for reissue against a seigniorage charge was not conducive to the withholding of money for any length of time. Money withheld was always threatened with loss of value. Thus hoarding became impractical, and holders of money were just as desirous of getting rid of their money as were holders of commodities of trading with their goods... selling became as easy as buying. No longer could money held in disuse impoverish the producers who needed to exchange their products. Money became what it has not been in recent times; a medium of exchange without an excessive freedom to serve as store of value.

Tragically, however, the people did not understand the cause of their continuous prosperity... the people naturally resented

the tricky tax system which diverted ten to twenty percent of their currency to the princes year after year. They did not realize the big contribution to continuous activity and high output that the prompt re-use of money provided. Fack writes: "Instead of demanding that the fee be reduced, People simply demanded the removal of reminted money and the adoption of 'eternal money' instead. The first to yield was the Duke Rudolph IV of Austria, in 1359. Of the free cities, Augsbugh was the first to yield and Brunswick in 1412 completed the list. With the removal of the ownership charge on money, there was inadequate incentive for money to circulate. And the economically depressed Middle Ages returned." 14

This account is greatly compressed and simplified, but, we believe, not distorted. The period was not one of unblemished prosperity for, since its peculiar monetary feature was undertaken merely as an easy way of taxing the public, it was coupled with harmful monetary abuses. Yet the existence of a true and fairly enduring prosperity within a far less technologically advanced era of civilization is inescapable.

Since this Gothic era of Europe, economic depression has been for the most part chronic except for periods when new hordes of gold were brought into Europe from the Inca and Aztec empires and later (after this gold had flowed into the hordes of the wealthy in India) when England and France invaded and robbed India and brought this gold back to Europe. Brooks Adams carefully documents the history of money scarcity in Europe, showing how the domirating capitalists sometimes deliberately cornered the supply of money to force nations and economies to their terms, and to force interests higher and wages and prices down. But the very nature of a hoardable money has the same effect quite apart from such predatory action. For liquid capital today as in the past is fundamentally free from social responsibility; free to refuse investment if the interest rate is lower than usual;

that is, free to go on strike without loss to itself, to remain idle and not to work; free to insist on interest rates and dividends which an economy cannot continue to pay; free to migrate to countries with low wages and high profits, whether enemy or ally. This does not happen because capitalists are inherently predatory people, but because the process itself rules society and stimulates men so to act.

"Imperishable" currency has proved itself an efficient and powerful exploitative force because like a suction pump its processes unobtrusively draw off wealth from all parts of society to the

metropolitan financiers, thereby rendering land, labor, industry, commerce and military power dependent and tributary to them. Craftsmanship ceases to be a basis of respect and security, for craftsmen are thrown out of employment at will on a market glutted with craftsmen, and are displaced by cheaper sweated labor, machinery and lack of opportunities for alternative employment. Highly competent farmers, entrepreneurs and industrialists find no security in their integrity and competence when they can be bought out by the financiers resources, and squeezed by taxation, alternating inflation and deflation, and loss of markets.

## VI

## The Economist's Response

What criticisms have economists made of the principles involved in the medieval economy? One of the most deliberate treatments of this subject (written with reference to the theory and not to its successful use) is contained in the chapter "Tax on Idle Money" in Alvin Hansen's book Economic Policy and Full Employment.<sup>15</sup> Hansen

defined the problem of achieving full employment, and demonstrated that it is two-fold. First, with our present distribution of income, something like a third of our income under full employment is accumulated in savings—particularly by the wealthy, and second, that these savings must be continually spent or invested if the nation is to be kept in full employment.

"It is," says Hansen, "this utter undependability of private capital outlays that makes the economic system so unstable." Hansen recognizes that the type of answer that succeeded in medieval Europe "would indeed induce people to get rid of such money in order to avoid the depreciation in value. But what is there to assure that the speed of circulation is precisely right to avoid both deflation and inflation? And can anyone really seriously believe that a depreciating currency is a good basis for economic stability?" These very questions invite answers that prove the superiority of this type of economy. The problem of inflation and deflation that rightly concerned Hansen could be easily mastered by "pegging" the dollar to a constant value in terms of the cost of living and the wholesale price index, allowing/conversion between goods and money and making money and resources redeemable in the goods/that are security for Federal Reserve notes or for what the government has stockpiled, such as wheat and butter, rare metals, including gold—at their market price. (A run on the dollar would then convert dollars into needed goods in reserve and scarcity of money would lead to the reverse process.) The stability of prices and of economic activity with dynamic currency thus could be far superior to the instability of prices that has

existed with the value of currency pegged to the gold standard on the international market. (Just as a bushel is a stable and constant measure while a bushel of apples will depreciate, the dollar can likewise be made a stable value while the currency shrinks in relation to the dollar.) The issue of making the market control the circulation of money is unacceptable to Professor Hansen because he has assumed with many other economists that the problem could be solved by such means as regulation the quantity of money --the policy that has failed in actual operation during the last thirty years.

Professor Hansen finds fault in the incentive-to-invest feature of a taxed currency. He wrote, "In view of the temporary saturation of investment, a forced investment...would be wasteful... What is needed is to raise consumption and to make good the serious deficiencies in the public sector of the economy--slums, blighted areas in cities, reforestation, etc. Yet Hanson elsewhere points to the extreme difficulty in lowering interest rates on mortgages and in financing small business organizations.

Almost completely lost to Professor Hansen is the fact that in theory and practice a taxed money automatically achieves a redistribution of income, of market demand, and of investment opportunities; it increases the earned income that can be spent in needed ways and decreases the unearned income of security holders.

At present the large banks have the power, because of the money scarcity that comes with freedom to hoard, to prevent financing at

lower interest rates of the large firms they control; they even have forced a large independent utility to go out to the small banks over the country for financing when lower interest rates prevailed. Given significantly reduced interest rates as well as the "good rate of turnover of the money supply" that Hanson grants would take place with a taxed money, investment would find ample outlets in housing, school building, and the other fields that have suffered under high mortgage and bond interest rates. When we consider that around a third of the cost to the public of our public school buildings goes to pay interest on bonds, we can see some of the potential benefit to education alone.

Professor Hanson objects to taxation of cash balances which firms put by for reserves for depreciation. This objection typically misconceives the role of money and currency. If a firm needs to maintain large inactive reserves, such reserves can safely and harmlessly be kept in such forms as government securities which may be hoarded to the benefit of the nation.

Hanson's next objection is that a tax on money would result in a reduction of the money supply. That reduction is itself a sound (as in the case of billions of United States currency in Europe) objective, for a vastly inflated idle money supply/represents an ever-present threat of runaway inflation occurring when crisis or great need arises. When impelled to serve its real and legitimate function, a much smaller money supply would be adequate.

Maynard Keynes' appraisal of the idea of a dynamic currency that is forced into adequate circulation by carrying charges is

equally illuminating: "The idea behind (such a) money is sound. It is, indeed possible that means might be found to apply it in practice on a modest scale. But there are many difficulties which Gesell (the leading proponent of it) did not face. In particular, he was unaware that money was not unique in /being hoardable/ but differed only in degree from many other articles. Thus if currency notes were deprived of /hoardability/, a long series of substitutes would step into their shoes--foreign money, jewelry, precious metals, etc."<sup>15</sup> Keynes' objection to this theory--and to Gesell's thinking--is answered by Dudley Dillard, in his writing that "money is not just another form of wealth; it is the standard of wealth and the universal objective of business activity. In a money economy all goods must assume a money form, that is they must be transformed from goods into money. Otherwise specialized producers have only negligible use for the things they produce...These simple facts have not been incorporated in economic theory, perhaps because they are too obvious for sophisticated analysis."<sup>16</sup>

If we follow the implications of Professor Dillard's observations we will see that the nation's currency should be recognized for what it is, a public utility, created and maintained at public expense. Money must be treated differently from other forms of wealth, which may with some impunity be hoarded or misused. The need to control its movement is comparable to the need to keep traffic moving on public highways and to prohibit the parking of vehicles on them, or the need to keep parking places on downtown

city streets in moderate circulation through the use of parking meters. As parking places for wealth there are more appropriate places than the highway of economic life where it may impede or even block the traffic.

Some ways of holding wealth out of use are wasteful and some are socially beneficial, but few if any other ways so adversely affect the public interest as the hoarding of a nation's money. Money is the life blood of economic society. Just as the body will become ill and die as the blood pressure falls and the blood fails to circulate, so does the economy fail if money fails to circulate.

Dudley Dillard's cautious estimate of the dynamic currency theory is: "It should be observed that there exists, so far as this author is aware, no satisfactory refutation of these proposals (for dynamic currency)...This does not mean that the ideas are sound or even on the right track, as Keynes said, but merely records a fact." Dillard further observes, "Keynes' theory is carried just far enough to suggest that the plans might be workable."<sup>17</sup> These verdicts were made apparently without awareness of the centuries-long objective experience in the thirteenth and fourteenth centuries of the strikingly successful operation of such economics.

## VII

### Scientific Method In Economics

The influence of economic forces and forms of organization upon human affairs and upon history has been an important subject of scholarship. Yet much of this study has been theoretical, indocisive and

without benefit of effective control or laboratory-scale experiment to test hypotheses. Fortunately, in our understanding of the primary reason for the remarkable prosperity of an important historical period, we now have the essential conditions of a true scientific approach to this economic problem: the gathering of information, the creation of hypotheses and large scale tests of the hypotheses. We do not need to rely on perilous speculative thinking to know what we are about.

The hypothesis in a nutshell is as follows: Our economics has assumed that the national currency shall simultaneously serve in three roles: as medium of exchange, as stable "measure of value, and as secure storehouse of value such that it may be freely set aside in savings and used later. Our hypothesis is that these roles are incompatible with each other and can feasibly be separated. This is the logical inference from observations such as that of Professor Dillard, that "money in its role as a store of wealth stands as a barrier to full production, that is, unemployment is caused by money."<sup>18</sup>

The peculiarity of the group of successful medieval economics we have referred to was that the functions of money were separated. The currency was not savable as a storehouse of value because it was of little intrinsic value and was subject to a "seigniorage tax" that made it impracticable to use it other than as a medium of exchange. Those who desired to save had to convert their currency into some form of investment in real or productive wealth rather than merely hold out of use this local medium of exchange. The

immediate consequence was that these currencies were not scarce or hard to come by, interest rates were low, the capitalist function adequately in these societies is performed / without excessive income, labor was in full demand, and investment in land improvement, forestry, buildings and art was vigorously pursued.

When this characteristic of these medieval states was progressively given up, the consequences were what could be expected--the scarcity of money and rise in the dominance of finance, the impoverishment and forcing into financial centers of the rural population, doubling and trebling of local interest rates, and the ending of the era of the great small cities as centers of art and commerce.

## VIII

### Modern Experiments With Dynamic Currency

Our assertion of the crucial importance of the principle involved in medieval currency is more confidently made because of the existence of small scale experimentation with such economic factors in modern society. During the great depression of the thirties many experiments on community and regional scales demonstrated the principles we have outlined. Most of these demonstrated the principles by failure, because they followed conventional economic and monetary practices. Three of these experiments, two in Europe and one in the United States, employed the same currency principle (following the principles formulated by Silvio Gesell) that was characteristic of the successful medieval economies. Each of these "dynamic currency" experiments was clearly and dramatically successful.

During the depths of the depression when money was excessively scarce, many communities, such as Yellow Springs, Ohio, developed a scrip as a medium of exchange for goods available through stores and clearing houses. Most of these scrips--like the national currency--tended to gather in the hands of people who did not have compelling need to use them and they went out of circulation. In contrast, in the town of Woergl in Austria a scrip was employed that was subject to a percentage of loss of its face value per month (depending on need, this can be from 2% to 12%), and consequently was in such active circulation that within a few months it yielded full employment, prosperity and community solidarity with a decline in debts. This economy spread beyond the town and threatened to displace the inactive national currency. A meeting of a hundred and fifty mayors of Austrian towns unanimously voted to join in Woergl's innovation, whereupon the whole movement was prohibited at the instigation of the Bank of Austria. <sup>19</sup>

The most widespread of the dynamic currency exchanges developed over a period of seven years in Germany. Shortly after it had been suppressed by the German government Hans Cohressen reported its achievement in an article in the New Republic from which we quote briefly:

The (Wara exchange) had already been going on for about six years without arousing much attention when last year a number of favorable circumstances made it possible to put the idea to a test in a small community confronted by a desperate economic situation. The place was Schwanenkirchen, a small Bavarian village. (Within) a few months... the village was on a prosperity basis, workers and merchants were free from debts and a new spirit of freedom and life pervaded the town.

The news of the town's prosperity in the midst of

depression-ridden Germany spread quickly. From all over the country reporters came to see and write about the 'Miracle of Schwanenkirchen.' Even in the United States one read about it in the financial section of most big papers...

The currency of the German exchange was widely used in Germany.

Hans Cohnssen writes further:

it was accepted in a few thousand stores throughout Germany, and...one or two more entire communities recuperated under the Wara accounts, accepting the deposits and at once lending...to those who asked for credit. Of course these banks were under the same compulsion of circulating the scrip to avoid the one-percent monthly tax, and it was obvious that the depositor was only too glad to have the par value of his deposit preserved without interest...

The Wara movement had an important influence in Germany. It counteracted the deflationary policy of the government... However, the Government...forbade the use of Wara by an emergency law...As a result, Schwanenkirchen and other towns where Wara had provided the life blood of economic activity are on the dole again." 20

In the United States the United Trade Dollar Exchange in Chicago is particularly significant because it was developed after the failure of many attempts at reviving economic life by use of exchange based on more conventional economic understanding. In 1937 the remnants of these unsuccessful experiments were gathered into the regional economy employing the essential characteristics of the medieval European states. It was organized by a German refugee, Fritz Schmieder, who had participated in growing German exchange. The reorganized Chicago exchange developed into the only successful local economy of which we record among the many that were tried in the United States. The currency in this exchange was 90% secured by United States currency, but with the unusual feature that its face value declined. The Trade Dollar scrip circulated three times as fast as the national currency despite the handicaps of a dispersed membership in a large city. This exchange

was terminated only when wartime rationing made its continuance no longer possible.

It is noteworthy that in these successful local economies there was a changed climate of human relations. As members reported, "It has created one big family out of many factions which otherwise would not understand each other."<sup>21</sup> This is in striking contrast to the known impact of orthodox money upon stable societies, dividing them into conflicting interests of labor, agriculture, capital and commerce, each scrambling and competing for the scarce dollar. According to the Newsletter of the Institute of Ethnic Affairs, "Dutch administrators and scholars have thought deeply upon this question. They generally... conclude that when money economy enters the village community, the genius of the community starts to die. The complexly organic unity falls apart, intra-village rivalry takes the place of mutual aid, social value perishes. But the scholars acknowledge that very little of wisely planned experimentation has been carried out."<sup>22</sup> Similar observations have been made with regard to many parts of the world, as in Switzerland, Africa, and South America. The medieval towns and our modern experiments are strong evidence that a money economy and the open market need not have this tragic impact.

## IX

### Dynamic Currency Policy For Today

The practicability of such an economic innovation on a large scale today was the subject of careful study by the economist Arthur Dahlberg in his Analysis of Recovery Plans<sup>23</sup> for the Temporary National Economic Committee of Congress. Dr. Dahlberg has since been studying ways in

which the dynamic currency principle could be unobtrusively and easily fitted into modern Federal Reserve and treasury practices. The means by which the currency would be made to depreciate in relation to a stable dollar standard, and the way in which this would fit into other parts of our financial system are technical matters that do not present insuperable difficulties and could be managed in a number of ways. Some promising techniques are described by Arthur Dahlberg, and others in a book by an industrialist Bruno Schubert,<sup>24</sup> who has made this subject a major concern. The experience of the Chicago exchange suggests the use of a currency whose face value would decline--for example on a dollar bill--one cent every two or three months (Gesell considered the equivalent of two months best, while Dahlberg and Keynes thought it should be less), and other denominations proportionately. Currency would be withdrawn and reissued annually. Since the average life of currency is fairly short this would not be a wasted reissue.

At insignificant risk the nation could cautiously experiment with this process by trying an annual 1% seigniorage charge for renewal of currency to determine what kind of response there would be to it. The late Dr. Zakir Hussain, president of India and a prominent Indian economist, reported to the author that a marked increase in employment occurs when a tax on money holdings comes due among muslims there. Such an experimental venture could schedule this charge to come due during an annual time of low employment. This could greatly benefit the economy as well as pay for the government's normal costs of replacing worn out currency. The loss to the nation from slack economic activity--even for a brief season--is far greater than the cost of such a change of currency. In comparison with the 3% sales taxes that are a penalty on each use of money, such a seigniorage

tax would be a negligible burden.

It has been questioned whether such a tax on money might cause a flight of capital to foreign countries. The exhaustive discussions of this by Silvio Gesell,<sup>25</sup> and by Arthur Dahlberg<sup>26</sup> as it relates to the European Common Market, deal with this question in theory: they are fortified by the successful practical experience of the experimental economies. If automatic processes of the market are designed to act in the monetary field they will automatically penalize the flight of capital, and create rates of exchange between currencies that favor purchase of goods from the country with the taxed currency.

X

#### Limitations of Dynamic Currency Economics

Just as the aeroplane did not solve all problems of transportation and created some new ones, we can anticipate that a dynamic currency economy will solve certain problems and aggravate others. Not the least of the problems it will aggravate is the world-wide concentration of land ownership--the hoarding of land--by the wealthy few. If hoarding of money is no longer possible, land is the next asset to be hoarded because of its crucial and limited nature. That is a major reason why feudal land ownership was so powerful in medieval Europe. Just as this problem is one of the most pressing in many other parts of the world, so would it become within our own borders. (This has now taken place with the rapid pace of inflation in America.)

The dynamic currency reform would not bring utopia. But it or its equivalent is one of the necessary changes that will have to take place if man is to remain free, and perhaps it is one of the necessary conditions for the avoidance of the annihilation in atomic war.

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